

Message Text

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 4528

INFO AMCONSUL DHAHRAN

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 4 JIDDA 3252

E.O. 11652: GDS

TAGS: EGEN, EIND, ENRG, SA

SUBJ: STATUS OF AND PROSPECTS FOR SAUDI/US INVESTMENTS

REF: A. STATE 146463

B. DHAHRAN 0600 (NOTAL)

SUMMARY: PETROMIN'S GOVERNOR TAHER STATES THAT PETROMIN HAS BEFORE IT NUMEROUS PROPOSALS FOR VARIOUS TYPES OF JOINT VENTURES; AMERICAN FIRMS IN THE LEAD, CLOSELY FOLLOWED BY JAPANESE, WITH EUROPEANS APPARENTLY A POOR THIRD PLACE. SAG IS VERY INTERESTED IN POSSIBLE SITING OF JOINT-VENTURE REFINERIES EITHER IN EASTERN PROVINCE, OFFSHORE US, OR IN US ITSELF AS MEANS OF PROVIDING REFINED PRODUCTS TO US MARKET. POLLUTION, TAXES AND IMPORT FEES WILL HAVE IMPORTANT EFFECT ON SAUDI DECISION. PETROMIN SEES SAUDI ARABIA'S INDUSTRIALIZATION AS CENTERING UPON NEEDS OF INTERNATIONAL MARKETS FOR OIL, ENERGY, STEEL, CHEMICALS, ORE REFINING AND SIMILAR PRODUCTS. SAG HAS
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RELATIVELY LITTLE INTEREST IN LNG--A COMPLEX COSTLY PROCESS

WHICH MOREOVER DOES NOT INVOLVE ANY ADVANCE INTO PETROCHEMICALS; IT MUCH PREFERENCES METHANOL. SAUDIS WISH TO INVOLVE MAJOR WELL-KNOWN FIRMS IN COUNTRY'S INDUSTRIALIZATION, AND TAHER MADE ESPECIALLY FAVORABLE MENTION OF MARCONA, DOW, PITTSBURGH PLATE GLASS AND HOUSTON NATURAL GAS. HE AFFIRMED THAT SAG MIGHT GIVE PREFERENTIAL ACCESS TO CRUDE TO COMPANIES THAT HAD MADE USEFUL CONTRIBUTION TO DEVELOPMENT SAUDI INDUSTRY. END SUMMARY.

1. DURING DISCUSSION BETWEEN AMBASSADOR, DCM AND GOVERNOR OF PETROMIN DR. ABDUL HADY TAHER JULY 30, LATTER REVIEWED PETROMIN'S ATTITUDE TOWARD WIDE RANGE OF INVESTMENT AND DEVELOPMENTAL OPPORTUNITIES BEFORE IT. TAHER STATED THAT MINISTRY IN GENERAL AND PETROMIN IN PARTICULAR HAD TO DEAL WITH THREE BASIC TYPES OF BUSINESS PROPOSALS. FIRST, THERE WERE THOSE INTERESTED IN LONGTERM PURCHASES OF CRUDE TO BE REFINED ELSEWHERE; SECOND, THERE WERE INCREASING NUMBER OF REQUESTS FOR SAUDI CRUDE FROM US CONCERNS WITH A TRADITIONALLY DOMESTIC ORIENTATION. THESE FIRMS OFTEN SUGGESTED SOME TYPE OF ASSOCIATION WITH SAG--USUALLY IN FORM OF A US REFINERY--BUT WERE PRIMARILY INTERESTED IN ASSURING THEMSELVES A CONTINUING SUPPLY OF REFINED PRODUCTS IN A CRUDE-SHORT MARKET; FINALLY, THERE WERE CERTAIN FIRMS WHOSE EXPERIENCE, SIZE AND REPUTATION ENABLED THEM TO MAKE ENERGY/INDUSTRIALIZATION PROPOSALS THAT DESERVED CAREFUL STUDY AND EVALUATION.

2. PURCHASERS IN FIRST CATEGORY NO PROBLEM FOR MINISTRY; CRITERION HERE WAS SIMPLY AVAILABILITY OF CRUDE IN QUESTION, AND REQUESTS HANDLED ON STRAIGHT COMMERCIAL BASIS. TO CUSTOMERS IN SECOND CATEGORY, TAHER POINTED OUT THAT THERE WERE A NUMBER OF OPTIONS SAG NEEDED TO CONSIDER BEFORE MAKING ANY FAR-REACHING DECISIONS RE SUPPLY OF REFINED PRODUCTS TO US MARKET. OF BASIC IMPORTANCE, FOR INSTANCE, WOULD BE SUCH FACTORS AS POLLUTION, AND FOREIGN TAXES AND FEES. IT MIGHT BE ADVANTAGEOUS FOR SAG TO CONSIDER REFINERY COMPLEX SOMEWHERE IN EASTERN PROVINCE WHERE FACTORS OF POPULATION AND POLLUTION WOULD NOT NEED BE GIVEN SAME WEIGHT AS THEY WOULD IN DOWNSTREAM DOMESTIC MARKETS. SAG WOULD ALSO STUDY SCHEMES INVOLVING REFINERIES ON PERIPHERY OF CONTINENTAL US: REFINERY IN PUERTO RICO, TAHER NOTED, WOULD BE EXEMPT FROM US TAXES FOR UP TO 15 YEARS, AND IN TERMS OF FEES BE CONFIDENTIAL

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SIDERED AS WITHIN US MARKET. A REFINERY LOCATED ON NON-AMERICAN ISLAND (PERHAPS BAHAMAS) COULD EXPORT VIA US BOTTOMS TO AMERICAN MARKET AND THEREBY ALSO AVOID IMPORT FEES. REFINERY CONSTRUCTION MIGHT EVEN BE CONSIDERED IN US ITSELF, BUT TAHER NOTED THAT THERE SEEMED TO BE RELATIVELY FEW TAX INCENTIVES FOR SUCH PROPOSALS. HE INDICATED DELIBERATIONS ON SITING OF JOINT-VENTURE REFINERIES FOR US MARKET WOULD CONTINUE, AND WOULD BE GIVEN HIGH PRIORITY BY SAG. (IN PASSING HE REMARKED THAT ANOTHER

CRUDE SALE EXPECTED TO TAKE PLACE IN LATE SEPTEMBER OR EARLY OCTOBER.)

3. TAHER AFFIRMED THAT OFFERS FOR JOINT DEVELOPMENT OF SAG'S ENERGY/ INDUSTRIAL POTENTIAL FROM MAJOR, WELL-KNOWN FIRMS WOULD GET MORE SERIOUS CONSIDERATION THAN FIRMS LESS WELL KNOWN. SOME OF THESE PROPOSALS MIGHT BE AIMED AT DIRECTLY SERVICING SAUDI ARABIA'S OWN LOCAL MARKETS, BUT OF COURSE DOMINANT EMPHASIS WOULD BE ON INTERNATIONAL NEEDS FOR OIL, ENERGY AND OTHER PRODUCTS. TAHER CONFIRMED ALSO EMBASSY'S SUPPOSITION THAT SAG MIGHT GIVE PREFERENTIAL CONSIDERATION TO REQUESTS FOR CRUDE FROM ANY MAJOR COMPANY THAT PROVED ITSELF HELPFUL AND EFFECTIVE PARTNER TO MINISTRY OF PETROLEUM IN ENERGY-RELATED DEVELOPMENT PROJECTS WITHIN SAUDI ARABIA.

4. SPEAKING CONFIDENTIALLY, TAHER THEN COMMENTED ON NUMBER OF POSSIBLE JOINT VENTURES IN LIGHT OF POSITIONS EXPRESSED ABOVE (SUMMARY INFO WHICH ALREADY AVAILABLE TO EMBASSY ADDED IN PARENTHESES; PARA LETTERING KEYED TO THAT OF REF A):

(A) KAISER ALUMINUM: PETROMIN HAD SIGNED MEMORANDUM OF UNDERSTANDING WITH KAISER CALLING FOR THE ESTABLISHMENT OF TWO 50,000-TON-A-YEAR POTLINES INSIDE SAUDI ARABIA PLUS ESTABLISHMENT OF A CARBON-BLACK PLANT AS A COMPLEMENTARY INDUSTRY. MOST OF ALUMINUM WOULD BE FOR EXPORT AND ENTERPRISE WOULD COST APPROXIMATELY \$100-125 MILLION. TAHER ALSO AWARE OF KAISER'S POSSIBLE INTEREST IN A REFINERY OF CA. 15 MILLION TONS CAPACITY; IT WAS TAHER'S FEELING, HOWEVER, AFTER DEALING WITH THE KAISER CORP. FOR BETWEEN 6 AND 8 YEARS, THAT THEIR ABILITY TO EXECUTE SUCH REFINERY PROJECT PERHAPS DESERVED SCRUTINY. PETROMIN IN ANY CASE WAS HOPEFUL THAT ALUMINUM PROJECT WOULD MOVE FORWARD, AS IT WOULD BE USEFUL STEP IN KINGDOM'S INDUSTRIALIZATION. (KAISER'S PROPOSALS WERE PRESENTED BY MR. EDGAR KAISER AND AN ACCOMPANYING CONFIDENTIAL

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DELEGATION THAT VISITED KINGDOM IN SECOND WEEK OF MAY.)

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(B) MARCONA STEEL/NIPPON STEEL/NIPPON KOKAN KAISHA: TAHER CONSIDERED MARCONA STEEL'S OFFER AN EXCELLENT EXAMPLE OF HOW SAUDI ARABIA'S INDUSTRIAL ASPIRATIONS AND ENERGY RESOURCES COULD BE LINED TO FOREIGN MARKETS; MARCONA'S OFFER WAS AT TOP OF PETROMIN'S LIST OF PROJECTS. CARGO/TANKER VESSELS WOULD TRANSPORT IRON ORE IN FORM OF SLURRY TO A STEEL PLANT IN THE EASTERN PROVINCE; THERE THE ORE WOULD BE CONVERTED INTO A VARIETY OF FINISHED PRODUCTS, INCLUDING PIPES, REINFORCING RODS, AND PLATES. ORE ITSELF WOULD COME FROM GOA, AUSTRALIA, BRAZIL, CHILE AND PERU. SAUDI ARABIA COULD ABSORB ANNUALLY PERHAPS ONE MILLION TONS OF STEEL PRODUCTS DOMESTICALLY, AND IF PRODUCTION LEVELS OF FIVE MILLION TONS P.A. ARE REACHED, SAG WOULD BEGIN TO PELLETIZE IRON ORE FOR EXPORT. (ULTIMATE PLANT CAPACITY MAY REACH TEN MILLION TONS P.A.) CONSTRUCTION OF A NEW TYPE OF TANKER IN SAUDI ARABIA WOULD ALSO BE CONSIDERED AS AN EVENTUAL POSSIBILITY--IN THESE TANKERS ENGINE ROOM WOULD BE ELIMINATED, AND VESSELS WOULD BE DRIVEN BY FOUR "DECK-MOUNTED" TURBINES OF GE DESIGN. TAHER REMARKED THAT THERE WOULD OF COURSE BE NO DIFFICULTY IN MARKETING

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CRUDE OIL WHICH VESSELS WOULD BE CARRYING ON THEIR OUTWARD PASSAGE. MARCONA PROPOSAL EXPECTED TO BE PRESENTED TO HIGHER ADVISORY COUNCIL AROUND SEPTEMBER 1. (TAHER IN EARLIER MEETING TOLD EMBOFF IT POSSIBLE, THOUGH NOT LIKELY BECAUSE OF GENERAL BUREAUCRATIC PROCEDURES, THAT STEEL COMPLEX COULD BE IN OPERATION AS EARLY AS 1976.)

(C) BECHTEL CORP.: TAHER EXPRESSED RESERVATIONS ABOUT BECHTEL'S

PROPOSAL TO BUILD A \$5-BILLION INDUSTRIAL COMPLEX IN THE EASTERN PROVINCE. HE THOUGHT IT NEITHER NECESSARY NOR WISE TO CONCENTRATE MUCH OF SAUDI ARABIA'S PRODUCTIVE, REFINING, AND EXTRACTIVE ACTIVITY IN A SINGLE LOCATION. A POWER BANK, WHICH IS CENTRAL ELEMENT IN BECHTEL PROPOSAL, COULD BE BUILT WITHOUT REQUIRING CONSTRUCTION OF IMMEDIATELY-ADJACENT INDUSTRIAL FACILITIES. PETROMIN WAS INCLINED TO ESTABLISH A PLASTICS/PETROCHEMICAL COMPLEX AT AL-UQAYR IN THE GULF OF BAHRAIN SLIGHTLY TO THE NORTH-EAST OF HOFUF OASIS. AREA WAS RICH IN SALT DEPOSITS WHICH NECESSARY FOR PLASTICS INDUSTRY. METHANOL PLANTS TOGETHER WITH STEEL INDUSTRY COULD BE CENTERED AT JUBAYL, TO NORTH OF DAMMAM.

(D) DOW CHEMICAL: PETROMIN WAS INTERESTED IN DOW'S PARTICIPATION IN PETROCHEMICAL/FERTILIZER FACILITIES, AND REGARDED DOW'S ENTRANCE INTO SAUDI ARABIA AS ONLY SLIGHTLY LESS DESIRABLE THAN MARCONA'S. DOW INITIALLY WOULD PRODUCE ETHYLENE AND RELATED PRODUCTS, BUT PETROMIN HOPED THAT COMPANY MIGHT EVENTUALLY DIVERSIFY INTO MAGNESIUM. (IN MAY, PETROMIN HAD DISCUSSED WITH DOW V.P. FOR INTERNATIONAL RELATIONS \$400-\$500 MILLION PROJECT IN WHICH SAG WOULD TAKE 50-PERCENT EQUITY SHARE, AND DOW WOULD BASICALLY BE RESPONSIBLE FOR MARKETING PRODUCTS TO US AND ABROAD. FURTHER DOW-PETROMIN DISCUSSIONS BY MIDDLE-LEVEL GROUP OF PRODUCTION EXECUTIVES CURRENTLY UNDER WAY.)

(E) KELLOGG CORP.: TAHER BELIEVED THAT THE KELLOGG CORP. WAS INTERESTED IN FINDING APPLICATION IN SAUDI ARABIA FOR ITS HYL STEEL-MAKING PROCESS THAT IT HAD DEVELOPED IN MONTERREY IN COOPERATION WITH THE MEXICANS. SAG, HOWEVER, WOULD PROBABLY NOT GIVE THE KELLOGG PROPOSAL TOO MUCH ATTENTION. PETROMIN FELT THAT KELLOGG HAD NOT BEEN OVERLY COOPERATIVE IN THE PAST, AND THAT ITS OFFER TO PROCESS SAUDI IRON ORE WAS MOTIVATED MAINLY BY A DESIRE TO OBTAIN MORE LOCAL CONSTRUCTION WORK.

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(F) PITTSBURGH PLATE AND GLASS: PPG WAS REGARDED BY GOV. TAHER AS ALMOST AS GOOD A COMPANY AS DOW CHEMICAL; IT WAS PERHAPS MORE ACTIVE THAN DOW, AND LIKE DOW WAS INTERESTED IN ETHYLENE-BASE STOCKS. (NOTHING FURTHER AVAILABLE IN EMBASSY FILES.)

(G) HOUSTON NATURAL GAS: TAHER REMARKED THAT WHILE HNG'S PROPOSAL WAS RELATIVELY SMALLER AND OF LESSER PRIORITY THAN OTHERS, IT WAS NONETHELESS EXCELLENT AND THE SAG LOOKED FORWARD TO ITS IMPLEMENTATION. HE ADDED THAT THE MINISTRY AND HNG WOULD PARTICIPATE EQUALLY IN THIS \$150-MILLION JOINT VENTURE. (IN JANUARY HNG PROPOSED TO CONSTRUCT IN THE DAMMAM AREA FIVE 2,000-TON-PER-DAY PLANTS FOR THE PRODUCTION OF METHANOL; THESE PLANTS WOULD UTILIZE ABOUT SEVEN PERCENT OF THE GAS PRESENTLY FLARED IN SAUDI ARABIA. HNG FORESAW NO PARTICULAR TECHNOLOGICAL PROBLEMS.)

TAHER TOOK THE OCCASION TO EXPRESS THE SAG'S LACK OF INTEREST IN LIQUIFIED NATURAL GAS (LNG) AND ITS STRONG PREFERENCE FOR METHANOL. LNG COULD ONLY BE CARRIED BY TECHNOLOGICALLY COMPLEX AND POSSIBLY DANGEROUS TANKERS, WHEREAS METHANOL'S TRANSPORT POSED NO PROBLEMS WHATSOEVER. BY PRODUCING METHANOL, MOREOVER, A COUNTRY ADVANCED ONE STEP TOWARD A PETROCHEMICAL INDUSTRY. THUS METHANOL WAS USEFUL NOT ONLY AS AN EASILY TRANSPORTABLE LIQUID THAT COULD BE TURNED BACK INTO NATURAL GAS ON ARRIVAL AT DESTINATION, BUT IT REPRESENTED ALSO A FIRST STEP TOWARD TURNING GAS INTO A BASE FOR PETROCHEMICALS. NO SUCH PARTIAL TRANSFORMATION TAKES PLACE WHEN NATURAL GAS IS SIMPLY LIQUIFIED. TAHER WAS ALSO CONCERNED THAT BECAUSE OF POTENTIAL TECHNOLOGICAL COMPLICATIONS, NARROW PROFIT MARGIN IN LNG COULD EASILY BE DRIVEN BELOW VANISHING POINT.

(H) ARAMCO: ARAMCO REGARDS POSSIBLE LNG FACILITIES AS SENSITIVE SUBJECT; CONGEN/WAS TOLD, HOWEVER, THAT ARAMCO HAS REACHED NO CONCLUSIONS NOR HAVE SPECIFICS BEEN DISCUSSED WITH OWNER COMPANIES. CONGEN SUSPECTS THINGS MAY BE A BIT FURTHER ALONG AND HEARS FROM ANOTHER SOURCE THAT STATED COST OF LNG FACILITY WELL IN EXCESS OF \$200 MILLION.

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INFO AMCONSUL DHAHRAN

AMEMBASSY PARIS

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(I) CALTEX: TAHER NOTED THAT CALTEX PROPOSAL WAS BASICALLY SIMILAR TO THAT OF HOUSTON NATURAL GAS. HE INTIMATED THAT THE MINISTRY MIGHT GO SLOW ON THE CALTEX/MARUBINI PROPOSAL SINCE, IF HNG'S PROJECT WERE SUCCESSFUL, SUCH PLANTS COULD BE EXPANDED ALMOST INDEFINITELY. IN MEANTIME, HOWEVER, PETROMIN SAW NO SENSE IN EXPERIMENTING WITH A NUMBER OF IDENTICAL PROCESSES SIMULTANEOUSLY.

(J) FAIRFIELD-MAXWELL: PETROMIN WAS NOT CERTAIN THAT FAIRFIELD-MAXWELL HAD EITHER THE MARKETS OR THE KNOW-HOW TO HANDLE A SIGNIFICANT REFINERY PROJECT. RESEARCH INDICATED THAT FAIRFIELD-MAXWELL WAS PRIMARILY A TRADING COMPANY; ITS INTEREST LAY MAINLY IN OBTAINING AN ASSURED SUPPLY OF REFINED PRODUCTS AND--AS INDICATED ABOVE--SAG WAS CURRENTLY STUDYING MOST SUITABLE WAY OF RESPONDING TO THE NEEDS OF SUCH CLIENTS. (FAIRFIELD-MAXWELL LTD. OF NEW YORK CITY IS ENGAGED IN DEVELOPING A NUMBER OF JOINT VENTURES TO BUILD OFFSHORE REFINERIES. FIRST 200,000/BPD REFINERY WITH AMERICAN/JAPANESE/KOREAN INTERESTS SCHEDULED BE BUILT
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IN KOREA AND GO ONSTREAM 1976. COMPANY INTERESTED IN ASSURED SUPPLY OF CRUDE; DURING MARCH VISIT DIRECTOR MAX BISHOP ALSO SOUGHT TO SELL HOVERCRAFT TO SAUDI COAST GUARD/NAVY PROGRAMS.)

(K) HERCULES POWDER: TAHER HAD A FAVORABLE OPINION OF HERCULES POWDER, WHICH HE LIKENED IN QUALITY TO DOW CHEMICAL. AT ONE POINT THE MINISTRY HAD CONCLUDED A LETTER OF AGREEMENT WITH HERCULES POWDER WHICH GAVE IT A MEASURE OF EXCLUSIVITY IN SAUDI MARKET. COMPANY HOWEVER LET THIS PRIVILEGE LAPSE AND NOW WAS EXTREMELY INTERESTED IN GETTING BACK INTO ACT. IT WAS EMBASSY'S IMPRESSION THAT NO DECISIVE ACTION APPEARED IMMINENT ON HERCULES POWDER OFFERS. (DHAHRAN STATES HERCULES HAD MADE PRE-FEASIBILITY STUDY ABOUT THREE MONTHS AGO AND MADE FIRM PROPOSAL TO PETROMIN FOR FEASIBILITY STUDY. SIZE OF PLANT ON ORDER OF \$10 MILLION. ARAMCO SOURCE HAS SUGGESTED HERCULES GET TOGETHER WITH PITTSBURGH PLATE GLASS AND HOUSTON NATURAL GAS ON METHANOL PROJECT TO COMPETE WITH JAPANESE. SUCH PROJECT WOULD RANGE BETWEEN \$200 AND \$450 MILLION.)

L. STERLING-WINTHROP: (CONSTRUCTION IS UNDER WAY ON S-W'S PHARMACEUTICAL PLANT NEAR JIDDA AND THE INAUGURATION IS EXPECTED TAKE PLACE IN DECEMBER. SIMPLE DRUGS WILL BE PRODUCED AT FIRST, BUT COMPANY PLANS EVENTUALLY TO BRANCH OUT INTO MORE SOPHISTICATED PRODUCTS SUCH AS ANTIBIOTICS--WHICH REQUIRE PRECISE STANDARDS OF LABORATORY CONTROL. A PROBABLE TECHNOLOGICAL SHOW-PLACE.)

(M) GENERAL MOTORS: (IN LATE JUNE GM SUBMITTED TO SAG THE PLAN FOR AN AUTO ASSEMBLY PLANT TO BE ESTABLISHED IN RIYADH. INITIAL PRODUCTION CAPACITY WOULD TOTAL 3000-4000 UNITS INCLUDING TRUCKS, IMPALA CHEVROLET, CHEVETTE, AND EVENTUALLY A COMPACT MODEL BEING PRODUCED IN AUSTRALIA. GENERAL MOTORS WOULD HAVE 70 PERCENT EQUITY AND 30 PERCENT WOULD GO TO UNDETERMINED SAUDI INVESTORS. COOPERATION OF VARIOUS MINISTRIES CONCERNED HAS SO FAR BEEN GRATIFYING.)

(N) TENNECO: TENNECO PROPOSAL, ACCORDING TO GOV. TAHER, WAS SIMILAR TO THAT OF CALTEX AND HOUSTON NATURAL GAS; FOR REASONS MENTIONED EARLIER, THIS PROJECT SEEMED UNLIKELY TO BE IMPLEMENTED SOON.

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(O) WILLIAMS COMPANY: NOTHING IS KNOWN ABOUT THE WILLIAMS COMPANY'S INTEREST IN BUILDING A FERTILIZER/PETROCHEMICAL PLANT.

(P) RYDER TRUCKING CO.: EMBASSY HAS NO INFORMATION.

5. IN ADDITION TO US/SAUDI JOINT VENTURES MENTIONED ABOVE, FOLLOWING ADDITIONAL US/SAUDI PROJECTS HAVE COME TO EMBASSY'S ATTENTION:

(A) TRANSCO/DUPONT/KIDDER, PEABODY: (TRANSCONTINENTAL OIL PIPELINE CO. (TRANSCO) OF TEXAS SEEKS ONE-HALF BILLION CUBIC FEET PER DAY OF NATURAL GAS; THIS WOULD BE CONVERTED TO METHANOL AND SHIPPED TO U.S. VIA EIGHT 250,000-TON TANKERS. THE INVESTMENT IN SAUDI ARABIA WOULD TOTAL APPROXIMATELY \$500 MILLION; ADDITIONAL PETROCHEMICAL PROJECTS (IN ASSOCIATION WITH DUPONT) BASED UPON THE PRODUCTION OF POLYETHYLENE AND ETHYLENE WOULD TOTAL ANOTHER \$500 MILLION. SAG WOULD INSIST UPON 50 PERCENT OF THE EQUITY IN ANY SAUDI INSTALLATIONS; IT HAS NO INTEREST IN PARTICIPATION FURTHER DOWNSTREAM. DEAL IS BEING FINANCED AND UNDERWRITTEN BY KIDDER, PEABODY, WHOSE BEIRUT REPRESENTATIVE IS EXPECTED TO RETURN TO SAUDI ARABIA AUGUST 27 TO RECEIVE WHAT K-P HOPES WILL BE THE FINAL SAUDI APPROVAL.) TAHER COMMENTED FAVORABLY ON K-P'S PROPOSAL.

(B) US STEEL: US STEEL IN COOPERATION WITH THE FRENCH BRGM (GEOLOGICAL SURVEY UNIT) HAS MADE DETAILED OFFER FOR 30-YEAR COPPER CONCESSION IN YENBO AREA. PETROMIN WOULD BE 50-PERCENT PARTNER, PAY 50 PERCENT OF ALL DEVELOPMENT COSTS, AND TAKE 50 PERCENT OF PROFITS. (SEE BELOW.)

(C) AMOCO: AMOCO OIL CO. HAS MADE AN OFFER SIMILAR TO THAT OF US STEEL/BRGM FOR YENBO COPPER DEPOSITS. (PROBABLY RICHEST MINERALS FIND IN SAUDI ARABIA, BUT USGS BELIEVES THAT PROFITA-

BILITY WILL DEPEND UPON CAREFUL CONTROL OF CAPITAL COSTS.) TAHER STATED THAT PETROMIN HAD INITIALLED BOTH AMOCO AND US STEEL PROPOSALS, AND REFERRED THEM FOR DECISION TO ITS COMMITTEE ON MINING AGREEMENTS. IT WAS EMBASSY'S IMPRESSION, HOWEVER, THAT TAHER THOUGHT WELL OF US STEEL, AND WOULD BE PLEASED TO SEE SUCH A LARGE AND PRESTIGIOUS FIRM TAKE ITS PLACE AMONG PETROMIN'S ASSOCIATES.

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(D) PETROSAT: PETROSAT WAS DEvised BY ADNAN KHASHOGJI AS CONSORTIUM OF BANK OF AMERICA, MERRILL LYNCH, J. HENRY SCHROEDER BANKING CORP. AND SECURITY NATIONAL BANK OF CALIFORNIA. COMPANY WOULD BE 51-PERCENT OWNED BY SAG AND 49-PERCENT BY CONSORTIUM AND PUBLIC. TO CREATE PETROSAT, SAUDI ARABIA WOULD COMMIT ITSELF TO AN AMOUNT OF CRUDE OIL RUNNING UP TO ONE MILLION BARRELS DAILY FOR SIX REFINERIES, BUILT IN US, TO PROVIDE OIL FOR PUBLIC UTILITIES, PROFITS FROM REFINERY OPERATION WOULD BE USED TO OPERATE PETROSAT, WHICH WOULD ALSO ADVISE SAG ON DIVERSIFIED SOURCES OF CAPITAL REVENUES IN FINANCING AND ACQUISITION OF NEW INDUSTRIES.. TOTAL INVESTMENT FOR ORIGINAL SIX REFINERIES WOULD BE ABOUT \$1 BILLION, OF WHICH SAG

WOULD BE ASKED TO PUT UP NOT MORE THAN FIVE PERCENT INITIALLY.
PROPOSAL WAS PRESENTED TO PRINCE FAHD AND OTHER MEMBERS OF SAG
HIERARCHY IN LATE JUNE AND IS ONLY IN ITS FORMATIVE STAGES,
ALTHOUGH FAHD SHOWED INTEREST AND HAS REQUESTED FORMAL PROPOSAL
BE PREPARED. EMBASSY BELIEVES THIS PROJECT WILL NOT BE IMPE-
MENTED SOON.
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(E) W.R. GRACE AND CO.: GRACE REPRESENTATIVE VISITED JIDDA
JULY 30 TO DISCUSS WITH PETROMIN POSSIBLE CONSTRUCTION IN EASTERN
PROVINCE OF \$250-MILLION PETROCHEMICAL PLANT TO PRODUCE FROM
ETHANE GAS 350,000 TONS P.A. OF POLYVINYLCHLORIDE (PVC). GRACE
WILLING PUT UP BETWEEN 25 TO 49 PERCENT OF CAPITAL; COMPANY
PLANS ITSELF TO USE HALF OF PVC OUTPUT AND MARKET REST. SIMILAR
OFFERS BEING MADE TO IRAN AND KUWAIT. TAHER HAS ASKED THAT GRACE
MAKE FORMAL APPROACH TO SAG TO DETERMINE LATTER'S POSITION CON-
CERNING TAXES, DEVELOPMENT SUBSIDIES, ETC.

(F) RIFFE PETROLEUM CO: MR. ED RIFFE OF TULSA, OKLAHOMA SEEKS
20,000 BARRELS OF CRUDE PER DAY FOR HIS COMPANY'S ASPHALT OPERA-
TIONS IN TULSA. ADDITIONALLY, HOWEVER, COMPANY PREPARED SELL OR
LEASE UP TO SIX MILLION ACRES WESTERN RANCH LAND TO SAG FOR AGRI-
BUSINESS BASED ON CATTLE. SAUDIS COULD PAY FOR LAND VIA BARTER
CRUDE; RIFFE CO. WOULD MANAGE ENTERPRISE AND PROFITS WOULD BE
DIVIDED 50-50. TAHER BELIEVED MR. RIFFE BASICALLY SINCERE AND
HONEST MAN, BUT WITH A SMILE HE INDICATED THAT ONE COULD HARDLY
TAKE SUCH OFFER SERIOUSLY AND THAT PROPOSAL WAS LIKE MANY OTHERS
PETROMIN RECEIVING: THEY WERE ESSENTIALLY BIDS FOR A CERTAIN
AMOUNT OF CRUDE OFF-TAKE WITH SOME KIND OF "SWEETENER" INTENDED
OFFER INVESTMENT OPPORTUNITY FOR SAUDI CAPITAL. (MR. RIFFE,
HOWEVER, HAS INFORMED EMBASSY COMPANY HAS RECEIVED PROMISE OF
20,000 B/D CRUDE IT REQUIRES AND IS HOPEFUL ABOUT THE REST.)

(G) MOBIL LUBE PLANT: PETROMIN IS CONSIDERING A MOBIL OFFER TO
BUILD A 500,000 BARREL/YEAR LUBE PLANT IN SAUDI ARABIA; SAG IS
THINKING OF PARTICIPATING IN THIS PROJECT TO EXTENT OF AN ADDI-
TIONAL 500,000 BARRELS WHICH WOULD ENABLE IT TO MEET SAUDI
ARABIA'S NEEDS AND ALSO THOSE OF SMALL "POCKET" MARKETS IN
VICINITY--ESPECIALLY THE HORN AND EAST AFRICA.

(H) TWA: TWA INVOLVED IN EASTERN PROVINCE JOINT VENTURE WITH
ZAHID INTERESTS IN "TRANS-ARAB TECHNICAL SERVICES." MAIN WORK
APPEARS BE MAINTENANCE HEAVY-CONSTRUCTION EQUIPMENT.

(I) VETCO: AMERICAN INTERESTS HAVE 500,000-RIYAL SHARE OF THIS
AL-KHOBAR FIRM WHICH SPECIALIZES IN DRILL-PIPE THREADING.

6. JAPANESE AND EUROPEAN VENTURES: TAHER STATED THAT AMERICAN
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JOINT-VENTURE PROPOSALS WERE PROBABLY MOST NUMEROUS BEFORE HIM, ALTHOUGH JAPANESE WERE CLOSE SECOND (JAPANESE SAID TO OFFER UNUSUAL EXPORT FINANCING). BRITISH AND EUROPEANS MUCH LESS ACTIVE, AND LOCAL HEAD OF GERMAN INTERESTS SECTION FEELS LACK OF FORMAL RELATIONS IS HINDRANCE TO JOINT VENTURES. (ON A STRAIGHT COMMERCIAL BASIS, HOWEVER, GERMAN CONSTRUCTION FIRMS SUCH AS HOCHTIEF AND PHILIP HOLTZMANN DOING WELL, AS IS ENTIRE RANGE OF MERCEDES PRODUCTS.)

(A) MIDDLE EAST DEVELOPMENT CORP./CITIES SERVICE/SUN OIL: THIS JAPANESE-AMERICAN CONSORTIUM (IN WHICH JAPANESE MIDDLE EAST DEVELOPMENT CORP. HOLDS 40 PERCENT, AND REMAINING 60 IS EVENLY DIVIDED BETWEEN AMERICAN PARTNERS) IS BINDING FOR OIL CONCESSIONS IN SAUDI ARABIA'S "SECOND DISTRICT." OFFER INCLUDES JOINT-VENTURE ASPECTS WITH SAG. CONSORTIUM'S RIVAL IS OCCIDENTAL PETROLEUM, AND SAG HAS TWICE DEFERRED DECISION ON COMPETING PROPOSALS.

(B) FARBWERKE/HOECHST AG: A DELEGATION FROM THIS WEST GERMAN CHEMICAL FIRM WAS IN SAUDI ARABIA WEEK OF JULY 22; COMPANY REPS SOUGHT TO GATHER INFORMATION FROM PETROMIN OFFICIALS WITH WHICH TO DRAW UP PROPOSAL FOR PETROCHEMICAL PROJECTS.

(C) FRENCH COMPANIES: WITH REFERENCE TO AMEMBASSY PARIS 18303 AND USDOC 10192, EMBASSY HAS NO ADDITIONAL INFORMATION ABOUT FRENCH JOINT COMMERCIAL VENTURES APART FROM US STEEL/BRGM PROPOSAL MENTIONED EARLIER.
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